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SUBJECT: FOREIGN ELECTRONIC AND TECHNOLOGY INVESTORS FLOCKING TO  
NORTHERN VIETNAM

REF: HCMC 320 (Labor Pressures On Manufacturers)

HANOI 00000372 001.2 OF 002

¶1. (SBU) Summary: Samsung's recently-announced plans to build a \$670 million mobile phone manufacturing plant is the latest in a series of major investments in Vietnam by international electronics and technology firms. A number of these new investments are planned for Hanoi and surrounding provinces in the north, demonstrating that this region is a growing focus for investors. Vietnam's low labor costs, improving business and investment climate and stable economic growth are all cited as reasons investors are choosing Vietnam - in some cases in lieu of China. This influx of high-tech investment will challenge Vietnam to address problems with poor infrastructure, lack of human resources and weak protection of intellectual property rights. End summary.

JUMPING ON THE BANDWAGON  
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¶2. (U) An announcement this month that Samsung plans to build a \$670 million mobile phone manufacturing plant in Bac Ninh Province, north of Hanoi, is the latest in a series of announcements on significant investment in Vietnam by major electronics and technology firms. Intel is building a \$1 billion chip assembly and testing plant near HCMC, and other U.S. firms such as V-CAPS, a USD 300 million joint venture chip testing facility, and Emerson Electric, which is building electric power supplies, mobile phones and cell towers are establishing operations here. Taiwan's Foxconn Technology plans to invest up to \$5 billion mostly in the north to build digital cameras, PC mainboards, computer components and music players; Taiwanese firm Compal Electronics is constructing a \$500 million laptop factory; Japanese companies including Canon, Sanyo, Sony and Panasonic, among others, have also recently expanded manufacturing operations here. Several major firms, including Intel, Matsushita Electric (a contractor for Panasonic) and Nidec (computer drive manufacturers) also announced plans to open research and development centers.

¶3. (U) This wave of foreign technology and electronics investors is bringing a number of suppliers and sub-contractors in its wake, and is creating opportunities for local and foreign firms. Compal Electronics is reportedly calling on at least ten of its suppliers to invest in Vietnam to provide parts locally for its facilities. Taiwan's Chi Mei Optoelectronics (CMO), the world's fourth largest LCD display producer, was already persuaded by Compal Electronics to set up manufacturing facilities here in partnership with local computer parts manufacturer Wistron. CMO also supplies computer manufacturers Hon Hai and Acer, who already have plants in Vietnam. Additional Taiwanese parts manufacturers including HannStar Board, Gold Circuit Electronics, Unimicron Technology and others have recently visited Vietnam to explore possible investments here.

#### MOST NEW ADDRESSES ARE IN THE NORTH

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¶4. (U) While HCMC has been, and continues to be, a significant destination for high-tech investment (Reftel), a number of these new announcements are located in northern Vietnam, demonstrating that the north is also a growing focus for investors. U.S. firms V-CAPS and Emerson Electric have identified this region for a number of their new investments. Canon produces printers in Bac Ninh Province and Hanoi, and plans to build another multi-million dollar factory in Bac Ninh. Much of Foxconn's \$5 billion investment is planned for the northern provinces of Bac Ninh and Bac Giang. In 2007, Taiwan's Hon Hai began development of a \$1 billion manufacturing complex outside Hanoi to produce computers, communications equipment and consumer electronics. CMO is working with Winstron to develop a 740 acre complex in Hanoi for its own planned facilities, with room for up to 20 more manufacturers on site.

¶5. (SBU) The Ministry of Planning and Investment's (MPI) Legal Department Deputy Director told EconOff that the Government of Vietnam (GVN) has not created any special incentives for these companies to invest in the north. Instead, he attributed this new trend to: 1) proximity and close connections with China, where many of the components and parts are currently manufactured; 2) improving infrastructure in the north; and 3) overstretched infrastructure and labor supply in the south, where much of the new investment has been located in recent years.

#### LURING INVESTMENT AWAY FROM CHINA?

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¶6. (U) Media reports and interviews with executives from these technology firms indicate that companies are choosing Vietnam because of its relatively inexpensive labor force, improving investment climate, and its consistently high level of economic growth over the past decade. Others have pointed specifically to

HANOI 00000372 002.2 OF 002

Vietnam's recent WTO accession as influencing their decision, as it is now more efficient and cheaper to import parts and export final products.

¶7. (SBU) An official in MPI's Foreign Direct Investment Department suggested to EconOff that many of these firms are looking to Vietnam to diversify their risks and "hedge the bets" of their Chinese investments. Rising labor costs, the revaluation of the Yuan and compliance with China's recently-enacted environmental and labor laws are all making investment in China more expensive, and therefore less attractive, he continued. Recent press stories underscore his analysis, with reports in Vietnamese papers saying that Japan's Olympus Group will soon close a camera factory in China and build a \$44 million plant in Vietnam. Similar stories have the Netherlands' Philips also exploring the possibility of moving some or all of its \$8 billion annual order of parts from China to Vietnam.

#### COMMENT

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¶8. (SBU) Annual growth rates of 25 to 40 percent in the electronics and IT sectors over the past several years, combined with this wave of recent investment, are creating challenges for Vietnam. Although infrastructure in the north is improving, the GVN will need to continue to invest significantly in roads, ports and power generation capacity to keep up with the growing demand created by these new factories. Vietnam will also need to step up efforts to protect and enforce intellectual property rights, a critical factor for electronics and technology investors. Perhaps most acute, however, will be the crunch for qualified human resources. Samsung expects to provide 20,000 local jobs at its mobile phone manufacturing plant, Foxconn plans to hire up to 50,000 workers and Compal estimates it will employ 40,000 Vietnamese at its new facilities. Most will likely be low-skill jobs, but as U.S. companies have reported recently, it is increasingly difficult to find qualified engineers, technical staff and mid-level managers

necessary for operations of this size. To avoid damming this flow of new high-tech investment, Vietnam will need to quickly find a way to train its citizens in these critical skill sets or cooperate with foreign firms and donors to address this shortcoming.

19. (U) This cable was coordinated with Consulate General Ho Chi Minh City.

MICHALAK